

# Memo

Date: August 30, 2005

To: Mr. David Collins, Chairperson, Development Impacts Sub-Committee  
Members - Development Impacts Sub-Committee

CC: Marlene Gafrick, Director, Department of Planning & Development

From: Ed Taravella

RE: Preliminary Report from the Task Force

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A task force composed of myself, Bob Collins, David Hightower, Jack Sakolosky, Jack Rose and Kent Marsh have met twice to consider the issue of infrastructure replacement in areas under going re-development. Our charge was to develop a preliminary proposal or means for funding the cost of upgrading the infrastructure in older, inner city neighborhoods where re-development is increasing the density of residential units and the existing systems (water, sanitary sewer, storm drainage and streets) are inadequate. We enlisted the input of Bob Collie of Andrews Kurth at our last meeting. Bob, having once been with the city legal department and still involved in public finance provided helpful comments in this discussion.

Several public policy questions immediately arise in these situations. Does the neighborhood desire to maintain its existing "character" or is it willing to accept the market forces that are driving the demand for re-development? Is it in the best interest of the City for the re-development to occur? Or, should policies and regulations be put in place to prevent the re-development or only accommodate rebuilding of the existing condition? Rice Military is an example of such a neighborhood currently in this evolution. Several neighborhoods are also in this process and many others are beginning to feel the market pressures of re-development. We did not try to address these fundamental issues.

Our discussions covered a broad range of possibilities including in-city municipal utility districts ("MUD"), public improvement districts ("PID"), tax increment reinvestment zones ("TIRZ"), management districts, enterprise zones and the ongoing capital improvement program. We agreed that any entity that imposed an over laying taxing or assessment on existing property owners would not be a viable option, either politically or from a market view point.

After exhaustive discussion, it was agreed that the approach which had the most merit for further evaluation was using a combination of builder impact fees and a city sponsored

financing entity, such as a TIRZ. Given the current political climate related to TIRZs and the fact that a TIRZ has much more authority than is required for the task, a new type of entity should be considered. This may require special legislation; however the evaluation of this aspect was considered outside the role of our task force.

These would be a new, or “second generation” TIRZ. They would function much like a TIRZ in that the incremental increased tax values in the defined neighborhood would be used for the city’s share of the infrastructure cost. However, they would (i) be limited to only basic infrastructure, (ii) would have a sunset provision that terminates the entity upon retirement of any debt issued and (iii) be controlled by the city, not any one private development entity.

For purposes of this memo and discussion, and not necessarily a recommendation, we have labeled these new entities Neighborhood Redevelopment Zones or “NERDZ”.

The basic concept would be as follows:

- 1) The Planning and Development Department (“PDD”), working with an advisory group from the private sector would identify a neighborhood, or neighborhoods, that are beginning to go through a re-development of the residential base. The boundaries of these neighborhoods would be used to define the NERDZ, or Zone. The group would assess the existing developed condition and make an educated projection of its redevelopment potential, including land uses and densities.
- 2) PDD, working with the Public Works and Engineering Department (“PWED”), possibly aided by outside engineering consultants would complete an assessment of the existing water, sanitary sewer, storm drainage systems and streets (the “Existing Facilities”) within the Zone.

The assessment would also need to look at “off site” (outside the boundaries of the Zone) or down stream infrastructure impacts, particularly drainage. In some cases this would complicate the analysis since other areas are also served by the trunk facilities that serve the Zone.

- 3) PDD would then prepare a plan for the infrastructure that would need to be replaced or upgraded to serve the Zone under the projected new development conditions (the “New Facilities”), assuming some level of partial or total redevelopment of the Zone. The plan would include a layout of the New Facilities, an estimate of the cost to construct the needed improvements and a projection of the time frame in which the work would be done.
- 4) An infrastructure financing plan would be created that incorporates (i) a builder impact fee (“BIF”) that would be imposed in that Zone and (ii) NERDZ bonds or some similar financing instrument (the “NERDZ Debt”).

The amount of funding raised through the BIF will need to be determined based on a cost sharing structure for each Zone. The BIFs would be assessed at the time of the building permits in the Zone and **WILL BE KEPT IN A DEDICATED FUND TO BE USED SOLEY FOR IMPROVEMENTS WITHIN THE BOUNDARIES OF THAT PARTICULAR NERDZ.** However, the contributions from the BIF in each Zone should be equitable across the City based on a relative proportion of public and private contributions.

The NERDZ should be created as early as possible in the re-development of the Zone in order to capture as much incremental increase as possible above the current condition. As with a TIRZ, this would allow the increase in value to be “captured” for the benefit of the improvements in the Zone.

The BIF would be a new fee. Our group did not investigate what portion of the current water and sewer impact fees should be contributed to the reconstruction. However this must be part of the equation.

- 5) Prior to the adoption and assessment of any BIFs, the City would commit to issue NERDZ Debt to fund the New Facilities and a time schedule for the implementation of their construction. Based upon the recommendation and analysis performed by the City’s financial advisor, once the incremental increase in taxable value hits a certain level, bonds may be issued to fund the infrastructure improvements, in conjunction with the impact fee funds already on deposit.
- 6) Since it is possible that there would be a number of NERDZ created in the City, the City might consider creating a Master Local Government Corporation (the “MLGC”) that would be responsible for the budgeting, administration and finances of all NERDZ.

In order for this concept to work, it is critical that the Zone be defined and NERDZ established early in the re-development of the area. In addition to capturing the full incremental value of the new development, this would also provide a level playing field for all of the builders working in the NERDZ. By allowing BIFs only to be assessed after the establishment of the NERDZ, this creates the necessary impetus to establish to NERDZ early in the process.

It is recommended that these new impact fees will not be charged on affordable housing, as is done currently with water and sewer impact fees.